



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., November 28, 2000. The following members were present:

Chairman Jody B. Olson  
J. Kirk Sullivan  
Dennis L. Johnson  
Susan K. Simmons

Trustee Pamela I. Ahrens was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Deputy Director Ted Aho, Medical Advisors B. Strouth and Craig Beaver, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn	Dorn, Helliesen & Cottle
Richelle Sugiyama	Dorn, Helliesen & Cottle
Ted Kunz	Dorn, Helliesen & Cottle
Drew Black	D.B. Fitzpatrick & Co
Brian McGrath	D.B. Fitzpatrick & Co
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Charlie Brown	Retired Educators Assn. of Idaho
Brent Nye	Boise School District
James Coleman	PERC – Retired Teachers
Robert Schmidt	Milliman & Robertson, Inc.
Geoff Bridges	Milliman & Robertson, Inc.
Kate Montgomery	Office of the Governor
Dale Tankersley	Retiree
Jennie D. Bonwell	Deloitte & Touche
Larry Bird	Deloitte & Touche

Becky Crowther	PERSI
Susan Shaw	PERSI
Judy Aitken	PERSI
Maxine Thomas	PERSI
Gay Lynn Bath	PERSI
Carol Boylan	PERSI

#### EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(d) authorizes the same. The Board went into executive session at 8:31 a.m.

After discussion of each disability application, the Board resumed the regular session at 8:45 a.m. By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the disability applications of Shanda Hart, Joyce May, Ronald Stoner, Patricia Voloshen, Shirley Walters, Dona Wilde with no review; Carrie Brumley with a review in one year; Richard Trulson and Judith Hoffman with a review in six months. In the same motion, the application of Curt Barker was denied, not meeting the requirements of the PERSI disability program.

#### OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the minutes of the October 24, 2000 regular meeting of the Retirement Board.

#### PORTFOLIO

Portfolio Report: Doug Dorn of Dorn, Hellieson and Cottle reviewed the investment performance and strategy report for the period ending October 31, 2000. The Total U.S. Equity portion returned a negative 3.2% and the Total Global Equity portion returned a negative 1.1% for the month of October, 2000. The Total fund returned a negative 2.0% for the month. For the most recent data available, all of the managers are in compliance with the Investment Policy and they have either the expected portfolio characteristics or reasonable explanations for variance from expectations. The only exception to this is T. Rowe Price who is currently looking into the problem.

Mr. Dorn reviewed individual manager performance and discussed value versus growth manager returns. The rankings compared to various data base information are a good tool, but because the holdings are different than those of PERSI, staff watches the characteristics of the various benchmarks in various markets. As long as a reason for why PERSI is ranking in a particular place is understood, the purpose of the comparisons is met. There was discussion of the various benchmarks and their weightings. Some tracking errors are being investigated. Mr. Maynard said PERSI is looking for incremental returns.

Monthly Portfolio Update and Mellon Report: Mr. Maynard reviewed the Russell Mellon report of PERSI performance dated November 28, 2000. More public funds are joining PERSI in having a higher allocation to equities. The report provided information on the US economy during the quarter ending September 30, 2000. Over the medium term, PERSI's performance remained very healthy, returning 16.3%, 12.0% and 14.8% over one, three and five

years and ranking in the 32<sup>nd</sup>, 36<sup>th</sup> and 44<sup>th</sup> percentiles respectively. PERSI outperformed its total fund blended benchmark by 4.0% and 2.2% over one and two years.

Mr. Maynard reviewed his Investment Report dated November 27, 2000, which showed a total fund return of negative 3.4% for the fiscal year to date. Commenting on the report, the CIO said the uncertainty continues, with earnings concerns, US political uncertainty, a falling euro, continued high oil prices, and some signs of more serious economic slowdowns, all combining to pressure worked equity markets. large Cap Growth stocks and emerging markets have been particularly hard hit. There is a general consensus that the Fed in on hold for interest rate increases for the remainder of the year. The total fund and each of the accounts are performing better than expected given the current market conditions. International and growth oriented managers are having difficult times, both absolutely and some against their benchmarks (e.g., Columbus Circle and Barings), while value oriented equity managers (e.g., Brandes, Tukman, and Mountain Pacific) are doing very well. This market is a good test of how the PERSI diversification works. this year, collectively, active managers are doing well. By using the active managers, we have added 3.1% over the five-year period.

He told the Board that the Zesiger portfolio has been split into private and public holdings for reporting purposes. He explained that Private Equity returns shown in his report are time weighted rather than dollar weighted; these figures are provided to our actuaries. Mario Gianinni will attend the December meeting to discuss private equity. \$50 million will be moved from Fixed Income to International Equity accounts in a rebalancing move this month.

Other Investment Business: The Chairman opened the floor to comments from managers who were attending the meeting. Rod MacKinnon said his company believes there is still momentum in the market and the place to focus is in stocks that are going from slow growth to higher growth. Although the tech stocks are experiencing price deceleration, he expects them to continue to gain value in the coming months. Brian McGrath agreed with Mr. Maynard's assessment of the economy. expecting the fixed income market to "go to sleep" for the rest of the year. Dennis Fitzpatrick added that he expects strong earnings growth in the tech and pharmaceutical sectors.

Mr. Maynard thanked the Board for their support and said Trustee Johnson will be accompanying him on a trip to Albania next week. That country wants to change their state insurance investments from private to public and Trustee Johnson has agreed to provide his expertise along with that of Mr. Maynard's to the officials.

#### ACTUARY:

FRF Valuation Report: Geoff Bridges and Robert Schmidt of Milliman and Robertson, Inc. reviewed FRF preliminary valuation results with the Board. The actual amortization period remaining as of July 1, 2000 is 11.0 years, down from 18.8 years two years previous. Responding to a question from the Chair, Mr. Schmidt said this year's higher FRF COLA is not reflected in this time period. The FRF system is a closed system with 508 retirees or their beneficiaries receiving benefits; there are only about 129 active FRF members.

Adoption of Actuarial Report: By motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved, the Board accepted the Actuarial Valuation dated July 1, 2000 for the PERSI fund. The report had been discussed in detail at the last meeting.

Retiree Medical Insurance Feasibility Study: Robert Schmidt presented the final report to the Board. He said the conclusions were not surprising; retirees and active members alike are interested in planning for retiree medical expenses. However, with the diverse employer base, gaining consensus on a consolidated program will not be easy; requirements for state employees are written in statute, so require legislation to make major changes. There was discussion of the PERSI sick leave program and VEBA's. Responding to questions from the Board, Mr. Winkle said other retirement systems handle retiree medical insurance; PERSI would not do that, but would select a Third Party Administrator. After considerable discussion, the Board asked Deputy Attorney General Brad Goodsell to provide draft legislation to them that would authorize the board to establish a mechanism for employer funded retiree medical expenses if it chooses to take such action before the 2002 legislative session. Such legislation should provide broad authority to the Board to fashion the type and terms of such vehicle. Mr. Goodsell will e-mail a draft to them so they have plenty of time to review it before the December meeting. City of Boise employee Steve Purvis whose employer currently has a VEBA, offered to provide some information. Trustee Johnson moved and Trustee Sullivan seconded to table any recommendation regarding legislation. The motion passed unanimously.

#### FISCAL:

FY 2000 Audit Report: Trustee Simmons, along with auditor Larry Bird of Deloitte and Touche, reviewed the financial Statements and Supplemental Information for the Year Ended June 30, 2000 and Independent Auditors' Report. There was discussion of the Letter of Comments and recommendations. Mr. Bird indicated that security appears to be in place and functioning, but the documentation needs to be improved. In response to a questions from the Board, Mr. Bird said he does not remember making a recommendation on this in the past. He believes there was a general comment about logical and physical security four or five years ago; the issue came up again as a result of site specialists. By motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the Board accepted the audit report. Ms. Simmons had met independently with the auditors who said PERSI staff had provided the necessary information and had been most helpful.

Fiscal Update: Financial Officer James Monroe reviewed his fiscal issues summary, noting that the Administrative and Portfolio expense reports show we are a little below budget for this time of year. This is due to the impact of new program budgets such as disability claims third party administrator and the education programs, which are just beginning. Because no expenditures have been recorded to date for those two programs, the overall actual to budget comparison is lower than would otherwise be expected. He told the Board that PERSI management is awarding one-time bonuses for staff on the basis of extraordinary performance. DFM has been advised and has expressed no objections. The funds are available from savings generated from vacant positions and delays in recruiting new staff approved for hire July 1, 2000. Mr. Monroe also told the Board that iSaySo.com has requested the lease of two floors of the 820 property for one year. A state agency has also expressed a serious interest in a longer-term lease for the same two floors.

Quarterly Financial Statements: Senior Accountant Rhonda Yadon reviewed the unaudited financial statements for the fiscal year ending September 30, 2000 and 1999. She said

the administrative expenses are higher because of Galena and more staff positions. She noted the unaudited net assets of the fund are up \$1 billion from a year ago.

Retiree Charlie Brown addressed the Board thanking them on behalf of retirees who will be receiving a 13<sup>th</sup> check because of the extraordinary gains declared by the Board. James Coleman who also represents retirees, joined Mr. Brown in thanking the Board.

## EXECUTIVE DIRECTOR

Adopt Pending Rule: After discussion of small changes to the proposed rules, by motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board adopted the temporary and proposed rules regarding gain sharing as set forth in docket # 59-0108-0101.

FRF COLA and Regular Interest: Mr. Winkle discussed his November 21, 2000 memorandum which explained that the FRF Cola which is based on the growth in the statewide average firefighters wage from August to August of the prior year will be 7.55%, which is unusually high. The increase is primarily due to an increase in the wage base across all employers and categories. Two employers had lump-sum payments for back wages that affected the wage base slightly. He said the PERSI regular interest rate will be 12.86% for calendar year 2001. This is based on the net rate of return earned by PERSI in the previous fiscal year. The reinstatement rate of interest, that rate applied to separation benefits being repaid by active members, will be 9.58%. This rate is derived from the average prime rate of interest over the previous three years plus 1%.

Status Update: The Board had previously received the monthly status memo, which summarized the projects in which PERSI is involved. Mr. Winkle reviewed the memorandum and discussed the retiree payroll and Galena transmittal system. Staff will review the Galena system in detail with Trustee Sullivan and other interested parties the first week of December. The components of the Gain Sharing/DC Plan were reviewed. Representatives from Mellon Trust will be in Boise for the December 19 regular Board meeting to discuss the record keeping component. Mr. Winkle noted that PERSI staff is experiencing signs of the high stress from increasing Galena testing, preparing for gain sharing, and handling the regular workload. Recruiting is getting more difficult because of below-market salaries. Latah County is interested in the sick-leave program. We are providing the necessary information to them. The annual member statements have been issued and we are receiving very positive feedback on the design of the statement; however, some members are critical of the lateness of the statement. We have assured them the delay is a one-time incident.

In response to a question from the Board, Deputy Attorney General Goodsell said the Board has provided for the hiring of a hearing officer in the matter of the FRF COLA calculation because the staff has been unable to reach agreement with the parties. Mr. Winkle said gain sharing preparations seem to be progressing well. Credit amounts will be provided in December

to the Employers, then an informational piece will go to members with the active member gain sharing statements on schedule for the first part of February. Retirees will get their notices in the near future, with their 13<sup>th</sup> check in January. The member education program will begin in February.

Trustee Johnson said Milliman and Robertson had fulfilled the requirements of the Retiree Medical Advisory Study. Even though the Board tabled any immediate action, he accepted the report on behalf of the Board and released M&R from further activity in this matter.

Set Regular Meeting Dates for 2001: By motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board set the following dates for regular Board meetings in 2001:

Tuesday, January 23, 2001 8:30 a.m., Boise - PERSI office  
Tuesday, February 27, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, March 20, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, April 24, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, May 22, 2001, 8:30 a.m., Boise - PERSI office  
**Tuesday, June 26, 2001, 8:30 a.m., Twin Falls, Idaho**  
Tuesday, July 24, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, August 21, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, September 25, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, October 23, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, November 27, 2001, 8:30 a.m., Boise - PERSI office  
Tuesday, December 18, 2001, 8:30 a.m., Boise - PERSI office

Trustee Sullivan asked that draft legislation regarding retiree medical be provided to the Board well in advance of the next meeting so the Trustees may have time to study it. Mr. Goodsell will e-mail his drafts to the Board. Chairman Olson voiced his appreciation for Trustee Sullivan's oversight on the Galena project.

Adjournment: There being no further business to conduct, by motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 11:25 a.m.

#### FUTURE BOARD MEETINGS

Tuesday December 19, 2000, 8:30 a.m., Boise – PERSI office

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director